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COÖPERATIVE SAVINGS AND LOAN ASSOCIATIONS

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THE problem of the small borrower is a difficult one, and, of late, has been receiving considerable attention, not only on account of the large number of persons involved, but also on account of the insidious and tenacious effects of the system upon them. Three types of small borrowers are to be distinguished according to the security: (a) borrowers on goods pawned—jewelry and small articles, which are deposited with the lender; (b) borrowers on chattels—chattel mortgages on household effects; (c) borrowers on salaries—on assignment of wages.

Efforts to stamp out the abuses in connection with petty money lenders, usually known as "loan sharks," have taken two directions: (1) legislation and (2) competition by agencies operated by persons whose charges are small and equitable and who are pledged not to take advantage of the weak position in which the borrower is placed. We are here concerned only with the latter. There have come into existence three types of remedial loan agencies. They are: (1) semi-philanthropic societies which advance money to deserving persons on security of personal property pledged or mortgaged; (2) reputable business organizations which are satisfied with reasonable profits on their investments, but which do not attempt to discourage unnecessary borrowing; (3) coöperative savings and loan associations and employers' loan funds. Of the first type of remedial loan agencies, the semi-philanthropic, there are two groups, the one loaning money on the security of pawns, and the other on the security of chattels. Such societies are well illustrated by the Provident Loan Society of New York and the First State Pawnors' Society of Chicago, both loaning on pawns, and the Workingmen's Loan Association of Boston, loaning on chattels. In the case of the semi-philanthropic societies and

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reputable business concerns, the deserving applicant, who has security to offer, may borrow. But in the case of the coöperative societies and employers' funds the situation is different.

The salary loan involves not only the borrower but also his employer, since the borrower virtually mortgages the labor which he expects to sell to his employer. Any remedy for its abuses, then, should have as close a physical connection as possible with the factory, the store and the office; not only because the employe has mortgaged his labor at this place, but because it is here that his creditor will seek the collection of his claims. It seems, therefore, that remedial effort along this line should begin at the place of employment. This is exactly what has been done in many places with the encouragement of employers. The plans which have thus far been inaugurated may be divided into the two general classes named above: (1) the employers' loan funds and (2) the coöperative savings and loan associations. These two methods of meeting the salary loan evil represent two kinds of effort; the former is a paternal and too often patronizing effort on the part of employers to help their workers, while the latter is an independent, coöperative effort on the part of the workers themselves.

Almost any employer is willing to loan money to a faithful employee in time of need. Many employers have set aside funds for that particular object and have organized and systematized departments for loaning money to their employes. There are two difficulties, of no mean proportions, which these plans fail to meet. First, they are apt not to be well advertised; hence the employes do not know that they exist or that their employer is willing to assist them. Second, very few workers wish their employer to have any knowledge whatever of their private affairs. Aside then from the larger question of policy—whether the best results will be attained by doing things for people, or letting them work the problem out for themselves—the practical handicaps of employers' loan funds are obvious and greatly limit, if they do not entirely destroy, their utility.

The coöperative savings and loan associations rest on a basis of strong underlying principles. These principles are: (1) that a man's best security is his fellow-workmen's estimate of him;

(2) that to provide facilities merely for borrowing may encourage improvidence and that any real solution of the problem must encourage thrift as well; (3) that an organization among the workers will be self-advertising; (4) that the workers themselves are most capable of meeting properly the needs of their fellows.

The forms of organization of coöperative savings and loan associations are, in general, similar. They have the usual officers of any self-governing organization. The routine business of the association, such as making loans, collecting savings and investing deposits is usually conducted through a board of directors. In some cases, as for example in the matter of loans for very small amounts, the functions are delegated to a single responsible officer. Loans are usually made to an employee who has proved himself worthy of the confidence of his fellow-employees. These loans, when small in amount, are made on the personal unendorsed note of the worker. If the amount is comparatively large, an endorser is required. Interest rates vary from six to twenty-four per cent¹ per annum. The schedules of rates differ considerably in different associations; in some the rates do not vary with the size of the loans, or with the length of time for which the loans are made; in others, the rates of interest are comparatively high for small, short-time loans, and much less, often below market rate, on larger loans over long periods of time. Usually the borrower must be a member of the association and at the time the loan is made must agree to repay at a given rate per week. Usually membership is not restricted and any one who wishes can have the full privileges of membership.

In the organization of these associations, one point of considerable importance should be observed. Many of them considerably curtail their influence and utility by limiting a member's borrowings to the amount of his savings, or approximately that sum. The result of this provision is that in such associations the real problem of the salary loan is not being met

¹ One coöperative association charges one per cent per week, or fifty-two per cent per annum. This is firm B in Table I.

with any large degree of success. Savings by members of these associations are usually small and the man who really finds himself in need of a temporary loan has probably already exhausted all the resources available to him; what he needs is credit, and this door is closed to him if the coöperative association limits loans to the amount of savings on deposit.

There are two essential differences between the coöperative system of saving and saving through savings banks. Saving through a savings bank is usually entirely voluntary and the depositor may withdraw at any time. In a coöperative savings association, however, the individual must save over a given period of time. If he withdraws before the end of this period, he is usually penalized not only by the loss of the interest which would otherwise accrue to him, but usually also by the loss of a part of his savings. The object, of course, is to encourage continuous saving over a considerable time. The result is the fostering of the habit of saving. A second difference between the ordinary savings bank and the coöperative association is that in the latter small savings are especially encouraged, even at the expense of large. This is accomplished by limiting the possible size of deposits, or by limiting the size of the account that may draw interest, or more often, the size of the account that is entitled to share in the profits derived from the making of loans. The coöperative system, therefore, makes the small depositor its special object.

An added advantage of the coöperative savings system is that facilities for saving are placed where the worker can conveniently get at them if he so wishes. There is probably only a small proportion of our factory workers who can conveniently patronize a savings bank, because during banking hours they are at work, and also because the banks are at a considerable distance from the factory and the home; but through the coöperative savings and loan association facilities for saving may be brought conveniently close to the worker.

Coöperative savings and loan associations, organized and in working order, have been formed in many business and manufacturing concerns.¹ While the general purposes and plans of

¹ The writer knows of fourteen such associations, and would be glad to learn of others.

organization are very similar, the various organizations differ considerably in merit. Some of them closely approach the position of the "loan shark;" others are broad and liberal in their policies. A brief account of a few typical associations will emphasize the good and bad features in each.¹

The Silverworkers Mutual Loan Company² was organized among the employes of the Gorham Manufacturing Company, of Providence, Rhode Island, in 1906. It was founded for the specific purpose of competing with the "loan shark," and in this it claims to have succeeded. The organization is a joint stock company with an authorized capital of \$10,000 made up of 2,000 shares of par value of \$5 each. Up to date \$4,000 worth of stock has been issued to seventy persons, all of them employes of the company.

An employe desiring a loan makes out a note in the regular form, pledging from his salary a weekly payment of an amount agreed upon with the loan committee, usually from fifty cents to two dollars per week, depending on the size of the loan. The interest rate is one per cent per month. "The pledge of a weekly payment is made in the form of a draft on the paymaster to deduct the amount pledged each week before the employe receives his wages. Loans are not restricted to shareholders."³

Critically considered, this organization is not strictly a co-operative savings and loan association. It is a group of seventy workers out of two thousand, who have formed a loan company which is lending money at one per cent per month to their fellow-employes, who far outnumber them.⁴ No deposits are received by this company and no profits are paid except to the shareholders. No association where the membership is limited can be called purely co-operative. Therefore, while this kind of a

¹ See also paper by Mr. S. T. Simmonds, p. 132. Mr. Simmonds describes the savings and loan plan of the Celluloid Club of the Celluloid Company of Newark. The writer considers this association the highest type of co-operative savings and loan organization, and only the fact that Mr. Simmonds' full description appears in this volume permits the omission of any description of it here.

² See pamphlet by F. C. Lawton, "*An argument for co-operative loan associations*," The Gorham Mfg. Co., 1911.

³ *Ibid.*, p. 10.

⁴ See Table I.

solution of the "loan shark" problem is a considerable advance, it still retains undesirable and dangerous features. Any organization having a limited membership is open to the same criticisms.

A very different type of coöperative savings and loan association is the Deposit and Loan Bureau of the Filene Coöperative Association of Boston. The Filene Coöperative Association is composed of all the employes of William Filene Sons' Company, and the deposit and loan bureau is one of the many activities of that organization. Any member of the Filene Coöperative Association may deposit any sum that he chooses, from five cents upward. Although the depositor is not required to leave his money on deposit any given length of time, it will be seen from the accompanying "promise to deposit" that he promises not to withdraw it until the deposit has reached a stated amount.

THIS IS THE FIRST SATURDAY OF THE NEW YEAR

AND IS JUST THE TIME TO BEGIN A

REGULAR SYSTEM OF SAVING MONEY

Resolve to deposit a certain fixed sum in the Bank *regularly every week*, and not to withdraw any part of it until your savings have reached a certain amount.

Fill in the following and send to the Treasurer of the Deposit and Loan Bureau.

To Treasurer of D. & L. Bureau :

I wish to deposit at least \$..... regularly every week in the D. & L. Bureau. Please have your representative call on me regularly every Saturday. I will try not to withdraw any of my money until my account has reached \$.....

Signed.....

Loans are made to members of the Filene Coöperative Association at a rate of interest not exceeding 12 % per annum. All loans are subject to the approval of a majority of the board of directors of the bureau. This function of approving small loans, however, less than \$25 and unendorsed, is delegated to two of the officers of the bureau. No notes are taken for a longer period than six months.

This bureau is not content to exist and take what business comes to it, but it carries on a distinct advertising campaign, using, for example, the accompanying card, which is put in the

IF YOU ARE IN NEED OF MONEY

DON'T GO TO OUTSIDE MONEY LENDERS OR "LOAN SHARKS."

The Deposit and Loan Bureau is ready to help you in all such cases.

No reasonable request for a loan is ever refused.

In contrast to the exorbitant interest rates charged by the so-called "loan sharks," the Deposit and Loan Bureau charges interest at the rate of only 1 c. on \$1.00 for one month.

All loans and applications for loans are treated as strictly confidential. An order for money advanced on a loan is exactly the same in appearance as a withdrawal order from a deposit account, and no persons in the store, other than the officers of the Bureau, have any knowledge whatsoever, as to loans made.

For further information and advice, apply to the President or Treasurer, or to any other member of the Board of Directors of the Bureau.

..... Treasurer.

weekly pay envelope of the employee. That this policy is a successful one may be judged from the following facts which show the increase in business in 1911 over that done in 1910:¹

	1911	1910
Total number of employes, Feb. 28	774	787
Total number of depositors, Feb. 28	608	532
Per cent of increase 1910-1911	14.2 %	
Per cent of depositors to total employes . .	78.4 %	68.8 %
Total amount of deposits, Feb. 28	\$53,929.74	\$44,622.67
Per cent of increase 1910-1911	20.8 %	

An interesting plan of organization is one in operation among employes of the New York Life Insurance Company.² The plan in brief is this: Each person desiring to become a subscriber to the fund signifies this at the beginning of the year. He is then required to deposit one dollar on the first Monday

¹ See also Table I.

² This plan was originated and put into operation by Mr. Harry S. Tormey, who deserves credit for its many unique features and to whom the writer is indebted for the information on which this short account is based.

in January, ninety-eight cents on the second Monday, ninety-six on the third Monday, and so on, the amount decreasing by two cents each week until fifty deposits have been made. About the middle of December the member has saved \$25. In the present series (1911) there are 248 members who hold 702 shares which will represent a total deposit of \$17,901. Any member who is more than three days late with his deposit is taxed 10 % of the amount due. Anyone withdrawing before the end of the series is taxed 10 % of the amount on deposit. Loans are made on the unendorsed note of any employe if he is known to the treasurer of the fund, or is endorsed by some one who is known to the treasurer. This fund has many desirable qualities, chief of which is the excellent way in which it encourages continuous saving. Its greatest limitation is doubtless the inflexibility of the size of the deposits and the fact that deposits must begin on a certain date.

The Curtis Savings Fund Society of the Curtis Publishing Company aims chiefly to encourage savings, and its loan features are therefore not so important. The association is organized on a share basis, and any employe of the company may become a shareholder. A small expense fee of fifteen cents is charged each applicant. The subscription for a share in this society obligates the shareholder to pay into the association each week the sum of twenty-five cents. A fine of one cent per week is levied on dues remaining unpaid. No person may hold more than twenty shares, and no matter how many shares a member may hold he is entitled to one vote only. Loans are made to shareholders for periods of not less than one month, and for sums not exceeding nine-tenths of the amount of the share already paid in. Interest is charged at 6 % per annum and a charge of ten cents is made for each loan.

As a savings plan, this association is succeeding admirably; in the years 1908-1909, 1909-1910, 1910-1911, the number of depositors has been 496, 621, 1174. From the fact, however, that the amount of the loan may not exceed the amount of the deposit, the organization is barred from doing any very effective work in combating or replacing the "loan shark." Two changes would make an admirable system: (1) the loaning of money

without reference to the amount on deposit; (2) an arrangement whereby an employe could subscribe for a share or a portion of a share at any time during the series and not alone at the beginning of each year.

Coöperative savings and loan associations have been financially successful. They have had to meet no deficits; they have lost very little money, and depositors have been paid substantial rates of interest on their small investments. Such organizations have increased in number, and the testimony of those who know substantiates the statement that they have been the means of doing away almost entirely with the "loan-shark" evil.

To the employer who is building up his organization a co-operative savings and loan association is valuable in two ways: First, it relieves the workers from the strain and annoyance due to the importunings of the "loan shark." No employe can give his best service to his employer when he lives in daily dread of the filing of an assignment of wages. The wise employer recognizes this fact; and instead of allying himself with the "loan shark," and holding the club of discharge over the heads of his men, he provides for them a normal and equitable method of securing funds when the occasion demands. Second, a mutual coöperative organization among employes who are making common cause against a common enemy will do more to weld a labor force into a strong, unified, working whole than any other measure that an employer can adopt to accomplish this end. After all, the most important things that an employer wants are not cheap materials, not market facilities, not transportation rates, not machinery, not power,—none of these things is of so vital importance as the labor force. In this labor force the employer wants two things: first, efficiency in the individual; second, efficiency in the working force as a whole,—*esprit de corps*. Coöperative savings and loan associations can and should, therefore, play a large part in the organization of any well-managed industrial plant or business establishment, and the employer who is alert to his own opportunities, to say nothing of the welfare of his employes, will not put aside this problem and its solution as trivial and undeserving of attention.

Table 1. *Financial Operations of Coöperative Savings and Loan Societies*
 Figures for last fiscal period

NAME OF FIRM.	NUMBER OF EMPLOYEES.	NUMBER SAVING.	PER CENT OF EMPLOYEES SAVING.	AMOUNT SAVED.	NUMBER BORROWING.	NUMBER OF LOANS MADE.	PER CENT OF EMPLOYEES BORROWING.	AMOUNT BORROWED.
Celluloid Co. ¹	1,350	676	50.0%	\$9,444	.	611	45.2% ²	\$9,234
Curtis Publishing Co.	1,859	621	33.4	73,084	151	242	8.1	6,069
Wm. Filene's Sons' Co.	814	591	72.8	46,212	127	271	15.6	4,659
Gorham Co.	2,000	70 ³	3.5	4,000 ⁴	575	761	28.7	23,678
Joseph and Feiss Co.	884	172	19.4	511	112	253	12.6	1,005
Rogers, Peet and Co. (1) Wholesale Department	142	84	59.1	2,706	62	791	43.6	1,558
Rogers, Peet and Co. (2) Manufacturing Department.	169	122	72.2	3,755	97	930	57.4	2,537
Rogers, Peet and Co. (3) Retail Department.	154	57	37.0	2,773	40	692	25.9	750
Strawbridge and Clothier	5,000	1,596	31.9	89,596	350	409	7.0	7,758
Firm A.	6,050	525	8.6	11,662	59	69	.9	1,603
Firm B.	1,290	189	14.6	9,846	149	479 ⁵	11.5	144,763 ⁶

¹ Six months' period only.⁴ Capital, no other savings.² Calculated on the number of loans made.⁵ Loans are renewed each week, hence large number.³ Shareholders.